Other State Health Insurance Reforms

Background

Following the failure to adopt, on a national level, the Clinton Administration's health care reform proposal, many states initiated their own reform efforts. At the time most of the reforms were focused on reducing the number of uninsured in their states. The reforms have taken primarily three forms: comprehensive broad benefit packages, purchasing alliances and pools, and basic benefit plans.

Reforms

1. **Comprehensive broad benefit reform.** The Clinton administration's health reform model was adopted by states such as Washington and Tennessee. The reforms were comprehensive, offering broad benefits, premium caps, guaranteed issue and low out-of-pocket costs for low-income people.

   Pros
   - Universal coverage
   - Less uninsured
   - Less use of emergency room care
   - Better use of preventative medicine by low income population
   - Guaranteed issue

   Cons
   - Expensive
   - Adverse selection
   - Inflexible policies
   - Unwanted mandates
   - Fraud and abuse

   Effects
   Washington created a uniform comprehensive benefits package that was mandated on all citizens that were not a part of a self-insured plan. Everyone was required to purchase a mandatory managed care plan that capped premium increases to the growth in personal income. After one year, many insurers began leaving the market and the amount of uninsured actually increased due to the guaranteed issue provisions of the plan & the resulting premium increases. The reforms were repealed 18 months after implementation.

   TennCare, in Tennessee offered a comprehensive benefits package that covered 25% of its population. It also offered broad benefits. There were limits placed on who could participate, mainly those eligible for Medicaid, uninsured children, displaced workers, high risk uninsurable people, and low income adults. This lead to adverse

selection and skyrocketing costs. TennCare today takes up $4.3 billion dollars of the state budget and lead to the implementation of Tennessee's income tax. Some insurers have left the market, including Blue Cross/Blue Shield, who announced they would leave the market at the end of 2000. Blue Cross/Blue Shield served 50% of the TennCare market.

2. **Purchasing Alliances/Pools/Cooperatives**. Some states, like California, Florida, Connecticut, Texas and North Carolina have put purchasing alliances in place. The idea behind purchasing alliances has been to allow small employers to band together in order to facilitate choice in health plans, a single point of entry and leverage of buying power.

   Pros
   - Single point of entry/choice to small employers
   - Standardized benefit plans allow for comparison shopping

   Cons
   - Community rating may lead to small employer pool becoming a high risk pool
   - Anticipated buying power may not materialize

3. **Standard Benefit Packages.** Maryland, New Jersey and New York have implemented standard benefit health plans that offer "streamlined" health packages for small employers. Maryland has had their plan in place since 1995, New Jersey since 1994, while New York's Healthy Pass plan became effective on January 1st 2001. Both plans are similarly structured in that they create a minimum benefit level that all plans (all HMO's in the case of New York) must offer. Additional coverages can be obtained from insurers in the form of riders.

   While the reforms by Maryland, New Jersey and New York are touted as mandate-free policies, that is not an entirely accurate representation. Maryland, for instance, still has 12 of their 36 mandates in their basic package. With the ability to add riders taken into account, the plans appear to offer flexibility and choice to small employers. Maryland's restriction on costs has kept premiums increases at a flexible level. All of the states that have basic benefit packages mandate some form of community rating for small employers.

   New Jersey's basic benefit package is not mandatory but must be offered, as was originally intended. The plan competes with other non-standard plans. There were 779,000 people enrolled in small employer plans as of 1996 with 56% being enrolled in the basic benefits plan. New Jersey also noticed an increase of 15% in the enrollment of small employers in 1995. Maryland has maintained an

enrollment of between 450,000 and 500,000 covered lives since the inception of their small employer plan

Pros

- Lower Premium Costs. In Maryland, for example, overall premiums must be below 12% of average annual income in Maryland
- Scaled back plans with allowable riders offer choices to employers
- Mandate that all insurers offer plans ensures availability

Cons

- Modified community rating may lead to adverse selection and high risk enrollees, although this has not happened in Maryland